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SUBJECT: ARGENTINE GOVERNMENT TAKEN BY SURPRISE AS CHAVEZ
NATIONALIZES ARGENTINE STEEL MILL IN VENEZUELA

REF: A. CARACAS 532

[1](#)B. 07 CARACAS 1518
[1](#)C. BUENOS AIRES 439

Classified By: Economic Officer Ian Sheridan, reasons 1.4, b. and d.

[1](#)1. (C) SUMMARY. The Government of Venezuela's (GOV) announcement that it would nationalize Venezuela's largest steelmaker, Ternium Sidor, majority-owned by Argentine interests, has rattled local markets and complicated the relationship between Argentine President Cristina Fernandez de Kirchner (CFK) and Venezuelan President Hugo Chavez. Top GOA officials told us that Chavez made the move without consulting CFK or even informing the GOA, and reportedly out of "solidarity" with Sidor's workers. Local press reports indicate that he was also motivated by charges that he has not delivered on promises of new low-cost housing and that the steel industry has not provided enough of its product to the domestic market. The Argentine media reported that Chavez ignored entreaties from CFK and Sidor's majority owner, Argentine steelmaker Techint, seeking a reconsideration of his action. Argentine business and union leaders have come out strongly against the action, claiming that it threatens Mercosur integration. Some local media have taken CFK to task for Chavez's "slap" against a supposed friend and others have questioned Venezuela's still-pending admission into Mercosur. Indemnification details remain to be worked out, but local media estimates the value of Techint's holdings in Sidor at US\$2.5 - 3 billion. The deal appears to be another setback for the still-new CFK administration, and has caused local industry and media to question the value of the "brotherly" relationship with the controversial Chavez. END SUMMARY.

Chavez nationalizes Argentine-owned Sidor

[1](#)2. (C) The GOV's decision to nationalize Venezuela's largest steelmaker, Ternium Sidor, majority-owned by Argentine and Brazilian interests, has rattled local markets and put President Cristina Fernandez de Kirchner (CFK) in a bind, given her ties to Chavez and her obligation to protect Argentine investments. Senior GoA officials, in private conversations with the Ambassador and Assistant Secretary Shannon (septels), reported that Venezuelan President Hugo Chavez made this move in the middle of the night without any prior consultation, nor did they call the GOA to give them a

heads up. The GoV's public rationale claimed the nationalization was declared out of "solidarity" with Sidor's workers, after a meeting where the GOV claimed that the "arrogant" and "inhumane" company showed more concern for its plant machinery than its workers.

¶3. (SBU) Chavez first threatened to seize Sidor in August 2007, but intervention by then-President Nestor Kirchner and Techint executives helped to bring about a truce (that reportedly also involved GOV demands that Sidor sell more steel to the local market and increase the price it paid for iron from a GOV-owned iron mine). Media reports noted that CFK also spoke on this matter with Chavez during her visit to Caracas in March 2008.

¶4. (U) The media has reported this action as Chavez's first nationalization of an Argentine company, and the first in Venezuela involving the assets of such a closely tied country. It also occurred during the run-up to Venezuelan gubernatorial elections, and shortly after the April 3 announcement of the nationalization of Venezuela's largest cement producers: Mexico's Cemex, France's Lafarge, and Switzerland's Holcim. Local media has speculated that Chavez's action was partly motivated by growing domestic criticism that he has not delivered on promises of new low-cost housing, and that the steel and cement industries do not provide enough to the domestic market. "The takeovers of both cement and steel industries will be used to breathe new life into construction in Venezuela, especially in the form of lower tier housing," Lehman Brothers analyst Gianfranco Bertozzi said in a research report.

Ternium Sidor a Majority Argentine Firm

¶5. (U) Ternium Sidor, state-owned before its 1997 privatization and the fourth largest steel producer in Latin America, is 59.7% controlled by the Luxembourg-based (and NYSE-listed) Ternium Group. The latter is controlled by Argentina-based Techint, a multinational conglomerate with interests in over 100 engineering, steel, oil, gas and service companies in more than 35 countries, and whose President is Italian-Argentine Paolo Rocca. The GOV owns 20.4% of Ternium Sidor, and its union 19.9%. This nationalization also affects one of Brazil's major steel producers, Usiminas, which holds a 14.25% stake in Techint (and thus about 8.5% of Sidor). Ternium also owns steelmakers in Argentina (Siderar) and Mexico (Hylsa); its stock price has fallen more than 15% since the announcement.

Techint pleads for reprieve

¶6. (U) Techint President Rocca reportedly asked Chavez in a letter to find a solution, and pointed to Sidor's efforts to assuage worker demands with a 130% salary increase, the incorporation of some 600 contractors into Sidor's permanent workforce, and increases for its 2,500 pensioners. Rocca reportedly also highlighted the importance of strengthening Mercosur relations among Venezuela, Brazil and Argentina. He also wrote to CFK to ask for her help.

GOA weighs in - to no avail

¶7. (C) According to media reports, Chavez ignored two calls from CFK seeking a reconsideration of the GoV's action, and that the decision could affect "Mercosur" investment. GOA officials confirm she raised the issue with him, but did not give us details. The same media reports indicated that on the night of April 10, Chavez told CFK that it was the matter was final, and there was no chance for a revision. However, Chavez apparently reassured CFK that the action would not otherwise harm GOV-GOA relations.

Argentina Industry Plays Mercosur Card

¶8. (C) One GOA minister told A/S Shannon that this was a blow to Mercosur as the project had Brazilian and Argentine investment and thus was an example for Mercosur integration. Argentine industry picked up this theme. In an April 10 meeting with EconCouns, Juan Carlos Lascurain, President of the Argentine Industrial Union (UIA) and ex-Techint executive, said that "the integration of Venezuela as a Mercosur partner requires amicable commercial relationships and mutual trust." He subsequently repeated this same strong statement to the media. Separately, the UIA also warned of "negative consequences" of the nationalization, in terms of the commercial and industrial relations between Argentina and Venezuela and within the Mercosur trading bloc. The UIA also warned that the nationalization is already having a negative impact on companies that have started or are contemplating projects in Venezuela. (Lascurain and the Argentine Industrial Union have been steadfast allies of the Kirchners, and Lascurain provided crucial private-sector support to CFK during the recent agricultural crisis.) In a public speech on April 17, the Secretary of AEA, the Argentine Business Association for larger firms, called the move "very negative" for Argentina and Mercosur.

Brazilian interests

¶9. (C) Media reports noted that Techint also asked Brazil to get involved, given the Brazilian minority equity stake in Sidor. The media noted that Venezuela's official entry into Mercosur still awaits Brazilian (and Paraguayan) Senate approval. This approval was first delayed last year after Chavez referred to the Brazilian Senate as "parrots of the (U.S.) 'empire,'" in response to the Senate's official criticism of Chavez' decision to cancel the license of open air TV broadcaster RCTV (ref B). CFK placed a call to

President Lula to try to recruit his help, a GOA minister told us.

Argentine Media slams CFK

¶10. (SBU) Local media harshly condemned Chavez's "slap" against his supposed friend CFK, and the Kirchners' friendship/alliance with him in the first place. An editorial in Argentina's second largest daily dismissed the GOV's excuse that the dispute was labor-related, saying that it represented just one more action on Chavez's part to accumulate power and control more sectors of the economy. It also called for the GOA to re-assess its close ties with Caracas, not only because of Chavez's lack of respect for democratic institutions, but because he is now "threatening the economic interests of Argentina." A prominent businessman called for a re-consideration of Venezuela's (still pending) incorporation into Mercosur. A leading journalist from Argentina's second largest newspaper said that the main hurdle for President CFK now is to prove that her government is more than just a more moderate version of the Chavez regime itself. Other media have echoed these themes.

Terms of Compensation TBD

¶11. (SBU) Media reports indicated that the GOV announced it will take control of Sidor "without stepping on anyone's toes and by paying indemnities as appropriate." A committee has been formed to determine compensation; local media reported that CFK has tasked Planning Minister Julio De Vido ensure that Argentine interests get a fair hearing. Media reports

estimate the value of Techint's potential indemnification in the range of US\$2.5-\$3 billion. The GOV says it is open to negotiation, and compensation could be in the form of cash, bonds, and/or shares. Observers note that at this point it appears that the only thing that Argentine interests can do is hope for a fair price. The media has reported that negotiations will also factor in the price that Techint pays for the large amount of iron ore it buys in Venezuela for steel mills elsewhere.

¶12. (SBU) Chavez designated his Vice President, Ramon Carrizales, as the mediator. Carrizales has also become a de facto voice of Sidor workers, and recently stated, "I am part of a workers' government, and Venezuela must re-gain its steel for its own development."

Comment

¶13. (SBU) The GoV's nationalization of Sidor represents yet another setback for the young CFK administration, which remains reliant on Venezuela for buying GOA bonds (ref C). It has caused local industry and media to question the value of the Kirchners' "brotherly" relationship with the eternally-controversial Chavez. Local analysts point out the growing political cost of the relationship with Venezuela in light of the December 2007 "Valijagate" embarrassment, Chavez's unsavory ties to Iran and Russia, and perceptions of his increasingly autocratic rule.

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